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DRUG STORE NEWS

Vol. 8/No. 1 **Serving chains, wholesalers and high-volume independents for 56 years.** Published by Lebhar-Friedman Inc. January 6, 1986

Humorous ads, such as Thrifty's, are being used by drug chains to break away from item/price approach and enhance store image.

TV ad laughs add pep to images

By Al Heller

NEW YORK — Drug chains are creating new types of television commercials that they expect will strengthen their image in the face of mounting rivalries for pharmacy and general merchandise business.

The latest wave of broadcast ads, from major operators such as Fay's, Thrifty and Page, use humorous twists to inject memorability and warmth to consumer perceptions of their stores.

These commercials de-emphasize item/price, while depicting how consumers relate to drug stores and the merchandise they buy there. Or, in the case of Page, stand-up comedy ties into how the chain's customers think about themselves.

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Execs get $1.3B for Eckerd deal

Group awaits SEC approval

CLEARWATER, Fla. — An investment group that includes 25 members of management and 32,000 employees has obtained $1.35 billion to finance a leveraged buyout of the Jack Eckerd Corp.

Awaiting only Securities and Exchange Commission approval to make its offer, the group expects to hold a stockholders' meeting at the end of this month. The date will be set when the SEC replies to a proxy statement filed by the group.

The group, managed by Merrill Lynch Capital Partners, is offering $33 a share, with $28 in cash and $5 in subordinated debentures. The terms of the debentures have not yet been revealed.

Financial analysts who track the company say the buyout, which they called beneficial to stockholders, "looks like it's going to be finalized."

Agreeing that Eckerd did not have any alternative to the buyout as a solution to the many problems plaguing it, analysts nevertheless said that the 1,500-store drug chain will face a difficult period after the transaction is completed.

"Turnarounds in retailing don't happen overnight," said Rick Nelson, an analyst with Duff & Phelps Inc.

Having recently prevented a hostile takeover by the Dart Group, Eckerd, fearing yet another such attempt, was forced into the deal by poor sales during a time of declining drug store business. The company has also been criticized by analysts for poor management of inventory and for unaggressive pricing policies.

Analysts said the company will have to address "all aspects of its business" to solve the problems that brought it to where indebtedness is now being added to an already poor

Continued on page 38

Pay Less returns to S. Calif. marketplace

By Lou Karney

WILSONVILLE, Ore. — To meet its goal of 40 new stores in 1986 and 100 in 1987, Pay Less NW is returning to the vast southern California marketplace and also adding a 20,000-sq.-ft. prototype to its lineup for markets where land costs are especially high.

Until now, Pay Less has drawn its southernmost line at Bakersfield, 100 miles north of Los Angeles, where it operates two conventional 30,000-sq.-ft. superstores and will open a third next month.

Now Pay Less is moving 60 miles south of Bakersfield with 30,000-sq.-ft. stores in Lancaster and Palmdale, 35 miles from the San Fernando Valley in Los Angeles County.

In October Pay Less' expansion drive will move to the southern tip of California with the opening of a 20,000-sq.-ft. drug store in Oceanside, adjoining San Diego. Pay Less is also negotiating with the developers of a 20-acre shopping center in San Dimas, about 25 miles east of Los Angeles, for another 20,000-sq.-ft. store.

The first of the new 20,000-sq.-ft. prototypes (17,000 selling) opened in November in Taft, 38 miles southwest of Bakersfield, and in Oakdale, near Stockton. Drug observers expect California to become the principal breeding ground for the new prototype, especially in areas where real estate costs are high.

Even before being acquired by expansion-minded K mart, Pay Less had laid the groundwork for growth. Until July 1984, the chain had a single format—the 30,000-sq.-ft. superstore. Then it converted one of those stores in Portland into a deep-discount Value Giant. Since then, there have been two additional deep-discount conversions, both in Hayward, Calif.

Continued on page 37

Expense cuts, stable sales to mark '86

Exec outlook

NEW YORK — The nation's largest drug chains said expense cutting, slower new store expansion, more use of private labels and scanning technology would be some of the industry's major operating themes in 1986.

In addition, key industry executives felt 1986's first quarter wouldn't be as heavy with markdowns as last year. More cautious Christmas buyins would help avoid inventory swells following the six-day-short holiday period in which they expected 6%-8% sales gains; they saw no star items such as last year's Cabbage Patch or Trivial Pursuits.

Gerald Wolken

Leonard Genovese

Jack Robinson

Alex Grass

Moreover, many chains set the tone for tighter, low-risk inventory postures when they decided not to run their own holiday gift catalogs. "Half who did it last year didn't do it this time," Phil Weinstein, president of Affiliated Drug Stores, told *Drug Store News*. Many smaller Affiliated chains used circulars instead, and lessened commitments to promotional merchandise that's not part of their traditional year-round mix.

Meanwhile, top executives from Perry, SupeRx, Rite Aid, Genovese and Harco expressed sensitivity to the same sales malaise at a recent industry panel. And the economic outlook isn't helping much either.

Walter Loeb, analyst at Morgan Stanley investment firm, said consumers are "overextended. The savings rate is just 2.5%. Collection rates by retailers are slow, and the delinquency rate is its highest ever, 2.4%."

Against this backdrop, Loeb said "the biggest challenge for retailers is a 1%-2% projected sales increase in the

Continued on page 38

Association leaders urge curb on sampling

See page 3

0023447C DR
MS JEANNE LONG
CONGRESSIVE INFO SRVCS I 1E9
4520 EAST WEST HIGHWAY
BETHESDA MD 20814
9

NEWS IN BRIEF

Strike affects Calif. drug store sales

LOS ANGELES — After five weeks, the strike against southern California supermarkets by the meat cutters and teamster unions has had a mixed effect on drug store sales.

Vons, selected by the unions as the strike target (the other food chains responded by locking out meat cutters and teamsters), has had supply shortages which Thrifty, Sav-On and Clark drug stores have capitalized on.

A chain drug manager said: "Vons dropped 5% in sales the first week, but after that, the supply situation improved." A Vons executive confirmed, saying: "We have been getting stronger every day and are now experiencing few shortages."

A store manager reflected widespread opinion when he said, "Sales of nonfood items are up, but it is hard to determine how much of the increase is due to the strike and how much to Christmas sales."

Because so few supermarkets have pharmacies, it is difficult to get a fix on that aspect of the strike. Vons operates pharmacies in some of its food/drug Value Centers but won't comment on any fall-off in prescriptions. Other drug stores have not noticed any increase in prescriptions transferred from Vons Value Centers.

Bergen Brunswig to acquire Berry

ORANGE, Calif. — Bergen Brunswig, the nation's second largest drug wholesaler, has signed a definitive agreement to acquire Berry Wholesale Drug Co., a $50 million company headquartered in Antioch, Tenn., for an undisclosed amount of cash.

The acquisition will strengthen Bergen Brunswig's presence in Tennessee and also add a 46th warehouse to its distribution network.

Emil P. Martini, chairman and ceo of Bergen Brunswig, said, "Berry's existing coverage extends over a radius of 150 miles from Nashville and associates well with the Davis Bros. Memphis location acquired last June." In addition to Tennessee, the Berry acquisition will add service areas in Kentucky and Alabama.

In the three months ended Nov. 30, Bergen Brunswig's net earnings increased 15% to $62 million on sales and other revenues of $760 million, a 54% gain.

FTC will permit two Vaseline claims

WASHINGTON — Chesebrough Pond's Inc. will be allowed to make two therapeutic claims for Vaseline, the Federal Trade Commission (FTC) said last month.

The commission partially modified a 1963 order which prohibited Chesebrough Pond's Inc., maker of Vaseline petroleum jelly, from making several "false and deceptive" claims about Vaseline's "use and effectiveness."

However, based on reports from the Food and Drug Administration's OTC review program, Chesebrough Pond's Inc. will be permitted to claim that Vaseline "provides a protective barrier to the skin" and is "effective for relief of itching."

The FTC also modified the order to allow the New York-based company to make "limited claims" about Vaseline's beneficial effects, and to compare Vaseline's effectiveness to that of other products "as long as it has a reasonable basis consisting of competent and reliable scientific evidence."

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Vol. 8, No. 1 January 6, 1986

FoxMeyer may head east using Franklin as base

By Al Heller

DENVER — FoxMeyer will use its $27 million acquisition of Ben Franklin wholesale business as a possible springboard into eastern markets, said chairman William Tauscher. The deal was imminent at presstime.

He countered earlier industry speculation that the fast-growing wholesaler might not want to service the variety chain's easternmost stores—about 20% of its 1,629 store count.

Indeed, Ben Franklin's eastern region will account for 41% of the franchise network's remodeling efforts, and 44% of new store growth in 1986, Tauscher and Ben Franklin president Larry Kunz said jointly.

The eastern stores would presumably lead FoxMeyer into new markets for pharmaceutical distribution. "Once trucking costs are borne by the Ben Franklin network, we can distribute that way [by placing extra merchandise on the trucks]," said Tauscher, who'll stop short of using the variety network's warehouses for pharmacy distribution.

FoxMeyer's extended geographic reach will enable it to continue servicing major western retailers who expand eastward, and be more enterprising in developing new pharmaceutical customers in Ben Franklin markets, Tauscher said. "It's getting expensive to grow mostly by acquiring drug wholesalers," he added.

FoxMeyer last month signed an agreement in principle to buy the wholesale business of Ben Franklin for $27 million cash (plus about $2 million in working capital) from HMI Acquisition Corp., the group set to take the entire $5.4 billion Household Merchandising Inc. (HMI) private in a $905 million leveraged buyout. Earlier reports valued the LBO at about $700 million; the difference is working capital for seasonal inventory.

Both the LBO and the Ben Franklin spinoff were due to be concluded on or about Dec. 31, 1985, according to parties involved in both deals. Earlier last month, the LBO group obtained financing for its deal.

For its part, said Tauscher, FoxMeyer planned to use some of its $100 million in unused bank lines to pay for the acquisition.

Ben Franklin acts as a wholesale supplier to 1,329 franchise variety stores and 300 other accounts, principally drug stores.

It remained unclear at presstime whether FoxMeyer would retain an ownership share in 176 Vons supermarkets or 739 T.G. & Y. general merchandise and discount stores, HMI's largest components. Tauscher confirmed that key pharmaceutical supplier Eli Lilly & Company might not sell directly to the wholesaler if it becomes part owner of a retailer that operates pharmacies—"even though we'd only have a 10% interest in them, and they total only 30 pharmacies," he said.

"If Lilly objects, we'll flip our investment to someone else who's already waiting for it," Tauscher said.

Ben Franklin has an unspecified number of pharmacies in its network, but they're owned and managed by individual store owners, he explained.

For all of FoxMeyer's involvement in the LBO from the start, the nation's third-largest drug wholesaler may

Continued on page 37

Rite Aid ordered to pay $1.3M in polygraph harassment suit

BALTIMORE — Rite Aid has been ordered to pay $1.3 million in damages to a former assistant drug store manager in Maryland who was allegedly harassed by chain officials after refusing to submit to a polygraph examination.

But at the same time, the state court of appeals agreed to reduce some $3.6 million in punitive damages to three other ex-Rite Aid workers who filed similar charges against the chain for violations of Maryland's statute restricting lie detector testing by private employers.

While the seven-figure damages awarded against the Shiremanstown, Pa.-based chain is local in nature and sets no precedent, it does underscore the potential importance to the chain drug industry of federal legislation pending now in Congress to outlaw workplace polygraph testing nationwide.

One federal bill already passed by the House Judiciary Committee and scheduled to reach the floor for a final vote this month would provide a partial exemption for drug chains and other distributors of controlled substances. Under that compromise measure, chains would be permitted to require employees suspected of wrongdoing to undergo polygraph testing.

A spokesman for Rite Aid characterized that House bill as "half a loaf," adding that the chain supports efforts by the National Association of Chain Drug Stores to secure a broader exemption for the industry. (A companion bill—without any exemption for drug retailers—has already been introduced in the Senate by Labor Committee Chairman Orrin Hatch, R-Utah.)

Unlike a number of states with antipolygraph legislation on the books, Maryland does not prohibit employers from asking workers to submit to such testing. However, the state law does bar employers from retaliating against workers or job applicants who refuse to submit to lie detector exams.

The assistant Rite Aid store manager who was awarded the $1.3 million judgment by the court alleged that she was subjected to intentional emotional distress by the company (including a reduction in her work hours and a transfer to a distant store location) following her refusal to undergo lie detector testing with respect to inventory shortages.

The three other ex-Rite Aid employees who were originally awarded $3.6 million in damages had that judgment reversed by the appeals court.

But the court did uphold the earlier finding that all three were discharged after refusing to submit to polygraph testing.

Fotomat buys Pay Less' Oregon photofinishing lab

ST. PETERSBURG, Fla. — Fotomat Corp. has purchased Pay Less NW's 35,000-sq.-ft. photofinishing lab in Salem, Ore., for an undisclosed sum. Fotomat will now service all Pay Less drug stores in the Pacific Northwest and California.

The sale to Fotomat aborts Pay Less' earlier plans to operate its own photofinishing labs. Pay Less purchased the Salem facility from Drewry Photocolor Inc., in 1981, to service its 80 stores in the Pacific Northwest.

Two years ago, Pay Less evaluated opening a second photo lab—this one in northern California—to service its 83 stores there.

"However," John Gross, vp-controller for Fotomat, told *Drug Store News*, "We were able to demonstrate to Pay Less that we could do a quality job with good service and more favorable prices—and without the capital investment."

As a result, Pay Less dropped its plans for a second lab and sold the Salem facility to Fotomat.

In addition to Oregon, Fotomat operates labs in Connecticut, New Jersey, Ohio, Georgia, Texas, Illinois and California. Outside of two very large labs (for enlargement and reprints), the others—specializing in roll film—are in the 35,000-sq.-ft. range. In fiscal 1985 (ended Jan. 31, 1985), Fotomat had revenues of $181 million.

FINANCIAL

Peoples revenues climb

MONTREAL — Peoples Drug Stores reported that revenues climbed 44% to $852.7 million in the six months ended Sept. 30, 1985. Operating earnings during that same period rose 8% to $24.5 million.

The 809-store chain registered comp store sales gains of 6.4% for the six months.

In addition, the company completed its consolidation of Rea and Derick stores in the Harrisburg, Pa., market and changed all stores to the Peoples name, it said.

Peoples also opened its new distribution center in Fredericksburg, Va., and said it will be operating fully in the spring when it closes its warehouses in Alexandria and Richmond, Va.

Its sister company, Shoppers Drug Mart, another division of Imasco U.S., reported a 13% systemwide sales climb to $735.5 million in the six months.

Corporate revenues from these retail operations rose 15% over a year ago to $36.3 million. Operating earnings also were up 15%, to $20.5 million.

Genovese earnings improve

MELVILLE, N.Y. — Although Genovese reported a drop in earnings for the third quarter ended Nov. 8, company officials noted that the figures represented a substantial turnaround from a second-quarter loss.

"We're back in the black. We feel the worst is behind us," said Don Gross, vp-marketing and distribution.

In the 12-week third period, net income fell to $156,000, or 4¢ a share, from $774,000, or 19¢ a share, in the same period last year.

Sales for the period increased slightly to $51.5 million from $50.8 million a year ago.

Gross said the company anticipates a good fourth quarter—"not sensational"—and a much better 1986.

Medi-Mart sales grow

BOSTON — The Stop & Shop Companies reported that sales of its 67 Medi Mart Stores increased 10% for the third quarter ended Nov. 9, but comparable store sales rose only 2%, "below expectations."

That factor, along with the impact of an "aggressive" 14-store expansion resulted in what the company termed a "small negative contribution to profit."

Total corporate sales, which also includes those of the Stop & Shop supermarkets and Bradlees department store company, increased 19% in the 12-week third quarter to $865 million. Net earnings fell to $4.7 million from $7.7 million.

		STOCK PRICE							TREND TO MARKET				EARNINGS/SHARE					P/E	DIVIDENDS			FINANCIAL POSITION				
		From 11/27/85 - 12/11/85							Price Trend (% per day)		Volume Trend (% per day)			Latest 12 Months vs Previous 12 Months Change								Last Fiscal Year			Last Fiscal Year (Per Share)	
					Change		52-Week						Last Fiscal Year	Amt.		5-Year Annual Growth Rate	Profit Margin	Latest P/E Ratio	Indicated Dvd. rate		Last X-Dvd. Date	Revenue	Earnings	Current Ratio	Long Term Debt	Common Stock Equity
Name	Symbol	High	Low	Close	Amt	Pct	High	Low	Last 30 Days	Last 5 Days	Last 30 Days	Last 5 Days			Pct				Amt.	Yield						
-	-	$	$	$	$	%	$	$	%	%	%	%	$	$	%	%	%	-	$	%	-	$ Mil	$ Mil	-	$	$
Chain Store transactions																										
Am Stores	ASC	64.75	59.25	63.25	-1.25	-1.94	68.25	36.63	-.40	.72	3.51	4.90	5.71	.86 N	19.5	34.0	1.5	12.0	.84	1.3	12-09-85	12118.8	185.5	1.2	37.93	21.40
Begley Co	BGLY	17.00	16.00	16.25	.25	1.56	17.63	15.00	-.19	-.84	-1.57	.00	1.26	.12 S	9.9	5.0	1.1	12.2	.72	4.4	07-15-85	66.1	.7	1.7	13.77	18.84
Big B	BIGB	14.38	13.63	14.38	1.00	7.48	19.50	10.63	-.36	.35	4.24	-16.45	.68	.11 N	18.0	19.0	3.0	20.0	.00	.0	09-21-83	148.1	4.4	2.3	1.20	4.58
Drug Sys	DRGS	4.50	4.13	4.13	-.38	-8.33	6.13	3.38	-.20	-.89	3.84	31.37	.35	-.12 Q	-24.0	NC	1.2	10.9	.60	14.5	05-09-85	104.7	1.3	3.2	1.13	6.18
Eckerd, Jack	ECK	30.88	30.25	30.63	.25	.82	32.88	20.00	-.09	.04	.78	-10.22	-.22	-2.61 Q	-100.0	NC	-.3	NE	1.04	3.4	09-09-85	2508.5	-8.3	1.6	2.64	14.49
Fay's Drug	FAY	8.88	8.13	8.63	.00	.00	13.00	8.00	-.08	-.80	.41	10.11	.62	-.32 N	-48.5	30.0	2.4	25.4	.20	2.3	09-23-85	366.7	8.7	1.8	1.65	4.28
Genovese Drug	GDX	11.75	10.50	11.38	.88	8.33	15.88	9.13	.08	-.24	-2.40	-1.65	1.03	.07 S	6.8	40.0	1.9	10.3	.20	1.8	09-24-85	220.3	4.1	1.7	2.06	5.73
Longs Drg Strs	LDG	31.00	29.75	30.75	.50	1.65	31.13	21.63	.21	-.05	3.32	-15.65	1.88	.10 N	5.5	10.0	2.9	15.9	.72	2.3	08-27-85	1375.8	40.1	2.1	.00	12.23
Medicare Glaser	MGCO	4.50	4.00	4.25	-.50	-10.53	6.25	3.50	-.52	.94	-1.02	14.37	.05	-.38 *	-88.4	NC	.2	85.0	.00	.0	00-00-00	81.7	.2	2.2	3.58	3.52
Perry Drug	PDS	18.63	17.75	18.00	-.38	-2.04	18.75	10.75	.06	-.76	-.08	-10.53	.84	.09 N	11.0	14.0	2.1	19.8	.19	1.1	09-11-85	370.3	7.6	1.5	1.60	7.07
Revco Drug	RDS	26.75	24.75	25.75	-1.00	-3.74	29.50	22.63	-.48	-.58	2.15	23.83	1.06	-1.61 Q	-63.9	-1.0	1.6	28.3	.80	3.1	08-19-85	2395.6	38.9	1.7	1.22	12.48
Rite Aid Corp	RAD	25.25	23.50	24.63	1.00	4.23	33.50	21.50	-.09	-.30	-2.23	-12.33	1.69	.13 S	8.2	9.0	4.8	14.4	.50	2.0	10-07-85	1445.7	69.9	1.9	2.02	8.58
Thrifty Cp	TFD	24.63	23.13	24.38	1.25	5.41	24.63	18.13	-.13	.17	-5.75	18.22	1.60	.20 F	14.3	16.0	2.3	15.2	.60	2.5	05-06-85	1404.9	31.9	1.5	4.46	7.72
Walgreen Co	WAG	28.38	26.25	26.88	-.63	-2.27	30.25	21.38	-.01	-.72	-2.20	7.58	1.53	.14 F	10.1	21.0	3.0	17.6	.50	1.9	11-05-85	3161.9	94.2	1.7	.87	6.76
Wholesaler's transactions																										
Bergen Bruns	BBCA	31.25	28.75	31.25	1.63	5.49	32.38	21.38	-.22	1.32	-1.71	4.53	1.91	.34 F	21.7	16.0	1.0	16.4	.32	1.0	10-28-85	2434.9	24.2	1.7	11.68	12.68
Bindley Wstn	BIND	8.63	8.13	8.50	.13	1.49	15.00	7.75	-.97	.96	2.77	-11.32	.73	.15 N	23.4	23.0	.8	10.8	.00	.0	05-01-85	566.7	4.7	1.4	.08	5.46
Cardinal Distrb	CDIC	19.25	18.00	19.00	.75	4.11	19.25	11.13	.24	-.39	1.25	-52.56	1.01	.21 S	23.1	NC	1.2	17.0	.08	.4	10-08-85	320.0	3.7	1.7	.94	8.85
Durr Fillauer	DUFM	13.25	12.38	12.63	.25	2.02	15.25	9.25	.87	-1.05	-3.60	-31.80	.74	.07 N	9.9	14.0	1.7	16.2	.14	1.1	07-01-85	341.7	5.8	2.3	1.21	6.05
Foxmeyer Cp	FXM	24.63	23.63	24.25	.25	1.04	29.75	21.00	-.16	-.25	.44	-5.71	1.56	.02 S	1.3	26.0	1.3	15.4	.00	.0	00-00-00	717.1	9.0	2.8	17.31	16.51
Ketchum	KCH	20.13	17.25	20.13	1.88	10.27	22.97	13.47	-.45	2.19	-3.81	18.53	.56	.14 S	35.0	NC	.2	37.3	.00	.0	09-23-85	273.7	.6	1.4	7.87	7.52
McKesson Cp	MCK	51.75	50.50	51.25	-.13	-.24	51.88	37.00	-.01	-.36	-2.19	-20.75	3.60	.02 S	.5	-1.0	1.3	13.6	2.40	4.7	11-25-85	4887.1	65.0	1.5	12.99	30.40
Moore Med	MMD	21.75	20.50	20.75	-.25	-1.19	22.50	8.81	-.21	-.89	-3.46	2.51	1.02	.45 N	47.4	18.0	2.9	14.8	.00	.0	05-23-85	115.4	3.3	3.3	2.45	5.25
Owens & Minor	OBOD	17.13	16.75	17.13	-.75	-4.20	17.88	8.00	.68	.02	5.60	17.70	.95	.23 N	26.1	16.0	1.2	15.4	.28	1.6	09-10-85	306.7	3.6	3.0	5.35	8.54
Manufacturer's transactions																										
Abbott Labs	ABT	64.88	60.63	64.63	2.38	3.82	64.88	39.88	-.01	1.01	-2.59	12.94	3.34	.52 N	16.3	17.0	13.0	17.4	1.40	2.2	10-08-85	3104.0	402.6	1.9	3.91	13.33
Am Home Prod	AHP	64.75	61.50	63.63	2.13	3.46	66.88	50.13	.11	-.11	-2.59	-6.98	4.39	.26 N	6.0	11.0	15.1	13.9	2.90	4.6	11-06-85	4485.5	675.6	3.4	.26	13.74
Baxter Travenol	BAX	16.00	14.50	15.88	.75	4.96	16.88	12.38	.53	.30	3.50	6.99	.21	-1.06 N	-82.8	-25.0	1.6	72.2	.37	2.3	09-09-85	1800.4	29.0	1.6	1.46	7.83
Block Drugs Co	BLOCA	23.50	21.00	21.00	-1.00	-4.55	23.50	14.56	-.04	-2.77	-2.44	44.23	1.70	.20 S	12.5	11.0	10.5	11.7	.49	2.3	12-03-85	247.8	25.9	2.4	1.59	10.91
Bolar Pharm	BLR	17.38	15.75	16.38	-.88	-5.07	22.63	11.50	.27	-1.56	-3.92	-14.73	.61	.10 N	17.2	22.0	18.2	24.1	.03	.2	08-06-85	29.1	5.3	7.5	.00	3.70
Bristol-Myers	BMY	65.88	63.38	65.38	.13	.19	66.50	49.00	.17	.14	-1.82	-1.83	3.45	.42 N	12.5	14.0	11.3	17.3	1.88	2.9	09-30-85	4189.4	472.4	2.5	.75	15.63
Carter-Wallace	CAR	50.75	46.00	49.38	3.50	7.63	50.75	24.75	.07	-.25	-4.38	-7.51	2.66	.77 S	30.1	21.0	5.9	14.8	.60	1.2	11-01-85	348.8	20.7	2.2	1.53	23.37
Forest Labs	FRX	30.38	28.63	29.75	.75	2.59	32.50	13.25	.10	-.31	1.28	-4.17	.73	.36 S	67.9	15.0	17.4	33.4	.00	.0	01-14-83	24.1	4.2	4.5	.22	5.90
ICN Pharm	ICN	13.38	10.13	13.38	3.13	30.49	13.38	8.38	.13	1.63	4.67	-29.07	.00	-.12 N	-85.7	NC	1.6	NM	.00	.0	00-00-00	44.8	.7	3.0	2.43	4.50
Key Pharm	KPH	11.38	10.00	11.13	.13	1.14	12.75	7.13	.98	1.75	2.38	38.19	.61	-.21 N	-33.9	47.0	14.6	27.1	.00	.0	09-09-85	151.1	22.1	3.4	2.52	1.60
Lilly Eli Co	LLY	108.50	100.50	107.88	4.13	3.98	108.50	64.38	.19	1.20	.37	1.99	6.73	.57 N	8.6	10.0	15.8	14.9	3.20	3.0	11-08-85	3109.2	490.2	1.7	1.63	31.04
Lee Pharm	LPH	8.88	7.63	7.88	.00	.00	9.63	2.50	.42	-1.37	4.59	14.54	.13	.62 N	NE	NC	6.2	21.9	.00	.0	00-00-00	8.1	.5	3.0	.20	1.73
Marion Labs	MKC	46.25	43.75	44.75	-1.25	-2.72	46.25	19.06	.14	-.41	-2.38	-42.43	.94	.39 Q	56.5	36.0	12.2	41.4	.36	.8	12-16-85	295.7	36.2	2.1	.00	4.17
Merck & Co	MRK	134.50	128.00	134.25	4.25	3.27	134.50	90.00	.22	.41	-1.33	-8.75	6.71	.71 N	10.9	6.0	13.8	18.5	3.60	2.7	12-03-85	3559.7	493.0	2.0	2.48	35.29
Morton Thiokol	MTI	40.00	34.13	39.25	4.13	11.74	40.00	25.38	.18	1.42	-1.85	10.96	2.50	.29 Q	12.8	21.0	6.7	15.4	.70	1.8	11-18-85	1832.3	122.8	1.8	3.25	15.00
Mylan Labs	MYLN	20.00	18.50	18.50	-.13	-.67	26.00	11.50	.53	-1.10	1.69	-8.20	.52	.38 S	115.2	64.0	23.3	26.1	.05	.3	02-19-85	53.6	12.5	5.9	.09	1.22
Newport Pharm	NWPH	13.88	11.25	13.00	1.88	16.85	13.88	5.38	.24	-1.77	4.13	-34.16	.05	.15 Q	NE	NC	6.7	NE	.80	6.2	05-23-85	9.0	.6	3.2	.21	.96
Par Pharm	PARP	20.25	18.25	18.25	.00	.00	23.25	8.50	.27	-.51	.17	-25.94	.42	-.05 F	-10.6	80.0	12.7	43.5	.00	.0	00-00-00	21.3	2.7	3.3	.00	1.84
Pfizer Inc	PFE	54.38	51.50	53.50	.13	.23	54.38	37.63	.24	.13	-1.45	-20.59	3.08	.37 N	12.3	15.0	13.2	15.8	1.48	2.8	07-26-85	3854.5	507.9	2.3	2.10	15.45
Reid Prov Labs	REID	5.50	5.00	5.50	.50	10.00	6.63	3.00	.07	1.18	3.40	17.16	.13	.02 Q	16.7	26.0	6.0	39.3	.04	.7	12-10-84	16.6	1.0	3.1	.02	.92
Robins, AH	QRAH	11.75	11.00	11.50	.38	3.37	24.38	5.50	-.18	.41	-6.11	17.24	-18.44	-18.79 N	-100.0	NC	-73.0	NE	.00	.0	11-19-84	631.9	-461.6	1.7	.47	-5.23
Rorer Group	ROR	38.25	33.63	35.75	.75	2.14	47.00	24.00	-.78	-1.59	2.34	-8.47	2.08	-.04 N	-1.9	4.0	8.5	17.5	1.12	3.1	11-04-85	522.1	44.3	1.9	2.18	11.07
Scherer RP Co	SCHC	14.25	13.75	14.00	.25	1.82	14.25	8.75	.35	-.71	3.04	-32.45	-.43	-.96 S	-100.0	NC	-2.0	NE	.32	2.3	12-09-85	167.4	-3.4	1.7	4.07	9.72
Squibb Corp	SQB	80.25	78.00	79.38	.75	.95	80.25	49.75	.16	-.31	-1.16	1.74	3.68	.46 N	12.9	21.0	10.5	19.7	1.76	2.2	11-08-85	1886.0	197.2	2.3	3.74	24.87
Sterling Drug	STY	39.00	36.50	37.00	-2.00	-5.13	41.38	26.75	.01	-.36	-.82	-15.80	2.37	.13 N	5.6	4.0	7.8	15.0	1.20	3.2	11-07-85	1827.3	143.4	2.6	1.32	15.34
Syntex Corp	SYN	86.25	81.00	85.75	2.63	3.16	86.25	46.25	.42	.45	.32	-21.10	4.65	1.11 Q	27.8	15.0	15.8	16.8	2.40	2.8	11-12-85	948.5	150.0	2.1	5.36	18.81
Thompson Med	TM	14.75	13.75	13.88	-.50	-3.48	18.38	11.75	-.18	-1.29	-1.56	2.08	2.20	-1.04 N	-46.0	15.0	10.8	11.4	.40	2.9	09-24-85	197.2	21.2	4.3	.00	7.09
Upjohn Co	UPJ	141.50	126.38	130.75	-7.13	-5.17	141.50	66.75	.12	-1.31	1.39	-11.94	5.67	.39 N	6.9	1.0	8.0	21.6	2.80	2.1	09-27-85	2179.1	173.3	1.7	12.47	37.00
Warner-Lambrt	WLA	45.38	43.25	45.13	1.38	3.14	46.50	33.38	.43	.20	1.08	-1.89	2.81	.27 N	9.7	7.0	7.1	14.8	1.56	3.5	11-04-85	3166.7	223.9	1.7	6.47	18.18
Zenith Labs	ZENI	27.00	25.25	25.88	-.38	-1.43	29.50	6.09	-.06	-.53	-1.33	-2.71	.28	.97 N	510.5	89.0	7.7	22.3	.00	.0	06-19-85	37.5	2.9	2.6	.27	1.99

All data are based on sources believed to be reliable, but its accuracy is not guaranteed. Every effort will be made to correct errors, when discovered, in future issues.

Footnotes: NA - Not Applicable; NC - Not Calculable; NE - Negative Earnings; NM - No Meaningful Figure; Q - First Quarter; S - First 6 Months; N - First 9 Months; F - Fiscal Year

Data and Table Prepared by Media General Financial Services, Inc., Richmond, Virginia 23219

1986 Drug Industry Forecast

Rest of decade will be tough, execs predict

Drug industry executives expect 1986 to set the tone for the rest of the decade, and they aren't smiling too much.

Chairmen and presidents were among managers from the nation's major chains, wholesalers and high-volume independents who told *Drug Store News* researchers that this year would be one of intensified price competition, bound to squeeze margins and after-tax profits.

Store expansion, they said, will focus more now on conversions and renovations of existing sites, as prime locations become harder to find.

And more than ever before, drug retailers will look to cut expenses to the bone as one strategy to extract more profits from sales that are tougher and tougher to get.

The upper management respondents also forecast greater use of point-of-sale scanning at stores nationwide, as executives eye a tighter rein on operations, and use technology to firm their grasp.

In addition, 85% said that more drug stores will enter the home health care arena despite high initial costs and labor intensiveness.

These were among major findings of a national industry poll conducted recently by Lebhar-Friedman Research for *Drug Store News*. A total of 905 surveys were sent to the industry's movers and shakers, asking them to forecast the economic and business environment in which they'll attempt growth and the steps they'll take. Responses from 88, or 9.7% of those targeted, represent the opinions of the nation's major chains, independents and wholesalers.

Their predictions were made against the backdrop of reduced inflation (which wipes out some built-in sales gains but builds real consumer buying power), lower interest rates (which could ease the cost of expansion) and stable unemployment rates.

Despite such positive signs in the current economy, drug industry executives weren't entirely happy about prospects for 1986.

Only 15% of those polled felt "positive" about the economic outlook this year. Many indicated probable gains or stability in inflation, taxes, interest rates and unemployment, with few expecting these indicators to improve.

Only gross national product and stock prices as a whole were predicted by most to move in a favorable direction.

Such gloom-and-doom feelings didn't pervade their forecasts for the retail drug industry, however. More than four

Continued on page 10

Execs don't like economic outlook
(% Predicting favorable movement in key indicators)

	Total	Chain	Independent	Wholesaler
Gross national product	63%	69%	56%	56%
Stock prices	53	56	47	67
Unemployment	22	29	15	11
Prime rate	16	20	12	11
Individual tax	16	13	15	33
Corporate tax	14	16	12	11
Consumer interest rates	14	18	9	11
Inflation	2	2	3	—

Source: Lebhar-Friedman Research, 1985.

Deep discount potential to reach 20% drug sales

If you've just gotten a headache, chances are you're a drug chain executive who's just discussed deep discounting.

The merchandising phenomenon that's squeezed margin points out of the retail drug trade and brought despair to some conventional operators, isn't always liked. But it's never ignored.

Deep discounting has become such a force in many markets that 74% of executives surveyed by Lebhar-Friedman Research for *Drug Store News* agreed with the statement that "deep discounting will become increasingly important to the drug industry."

Indeed, industry estimates peg deep discounters' share of total retail drug sales at 3% currently, with the potential to eventually reach 20%.

Apparently, some doubt the depth of the deep discounter wallop, long term. Six out of 10 respondents felt that "deep discounting is part of a cyclical phenomenon and will eventually lose its steam." More chains (69%) agreed with that statement than did independents (53%) or wholesalers (44%).

Regardless, traditional drug chains in major markets have mounted competitive attacks to blunt the impact of deep discounters. (See Store Wars issue, Dec. 9, 1985). Strategies have varied from emphasizing service and low-cost prescriptions, to broadening assortments and converting traditional stores into deep-discounter formats.

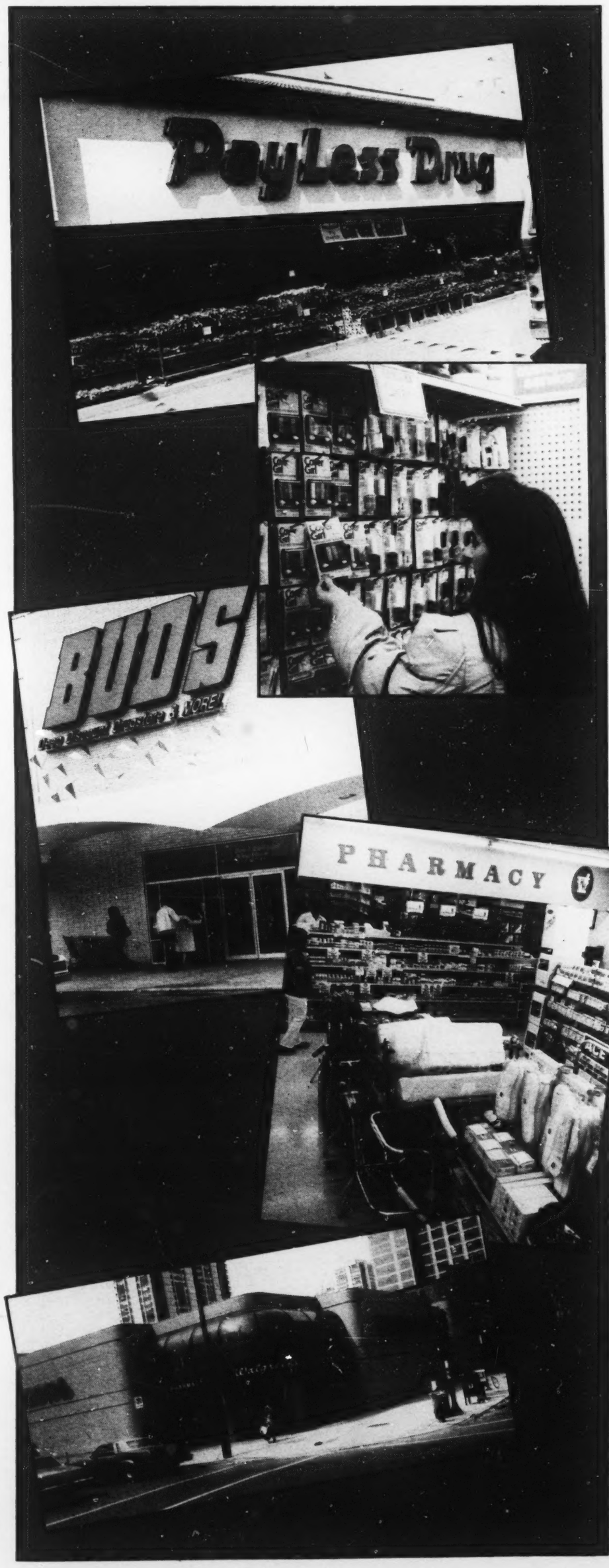
Such activities by major chains underlie the intense feeling with which 66% of total respondents said: "Traditional drug stores will not lower prices to compete with deep discounters; instead, they will rely more on nonpricing strategies."

Not surprisingly, a minority of respondents—49%—said that "deep discounting will become more important than convenient locations to consumers."

Is deep discounting here to stay?
(% Agreeing with statements)

Deep discounting will increase in importance.	74%
Traditional drug stores won't lower prices to compete.	66%
Deep discounting is cyclical and will lose steam.	60%
Consumers will shop for best deals at deep discounters.	49%

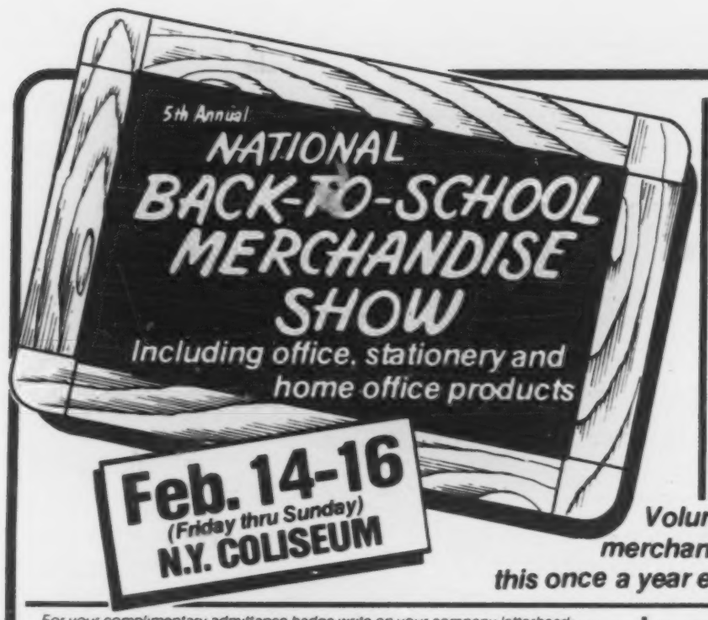
Source: Lebhar-Friedman Research, 1985



Execs forecast own companies' performance
(% Predicting favorable movement in 1986 financial stats)

	Total	Chain	Independent	Wholesaler
Total sales/revenues	81%	84%	74%	89%
Earnings per share	66	69	59	78
Shareholder equity	65	69	56	78
Return on equity	60	69	50	56
Net profit pretax	57	67	50	33
Current asset/liability ratio	55	47	59	78
Gross profit margin	38	40	41	11
Long-term debt to capitalization ratio	36	38	38	22

Source: Lebhar-Friedman Research, 1985.



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1986 Forecast

Most are positive about prospects for their firms

Continued from page 9

times as many respondents—64%—rated prospects for their own companies as "positive."

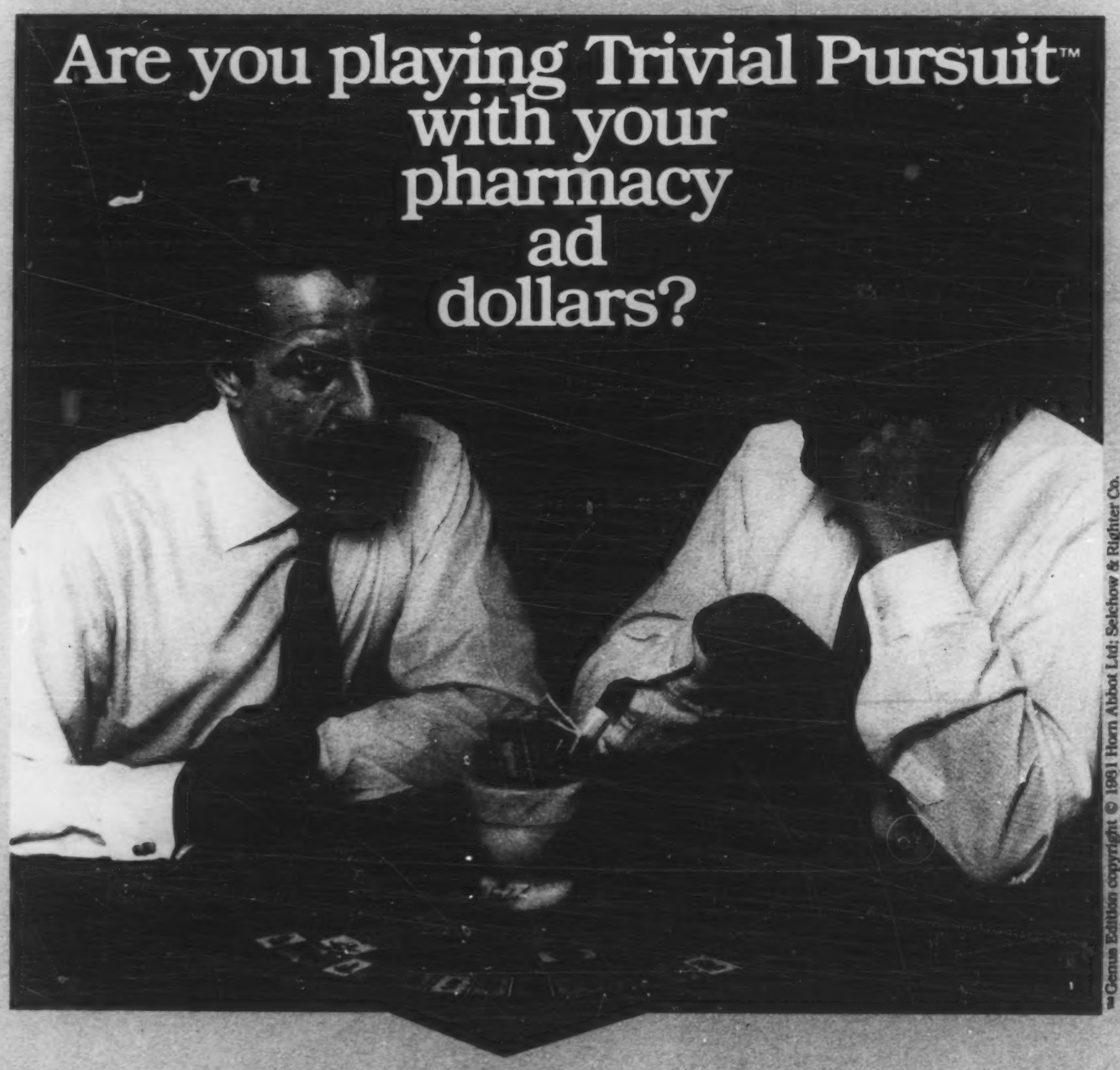
Notably, the opinions of chairmen, presidents and chief financial officers were consistently more conservative than others polled in evaluating their own companies' chances to grow and improve in 1986. Conversely, top management felt better about the national economic outlook than others polled.

The majority of all respondents expected that retail drug companies would remain good investments and that their own companies' financial statements would improve this year.

An impressive 81% believed their sales and revenues

Continued on page 11

To Brand Pharmaceutical Companies and Their Ad Agencies:



The retail pharmacy game is tough, and it's going to get a lot tougher. The rules are changing, there are more players than ever before, and the field is shifting:

- A flood of generic imitators are available at bargain basement prices.
- Patients are increasingly comfortable with substitution.
- Chains (drug, supermarkets and discount) are capturing an increasing share of pharmacy traffic from small community pharmacies.

The situation demands a realignment of priorities and new marketing strategies to protect your market share and assure future growth. Unless the right moves are made, yesterday's winners could wind up tomorrow's losers.

Clearly, it's time to go beyond the dependence on cpm "efficiencies" and syndicated research in selecting your pharmacy media. It's time to reassess the traditional scheduling of 2 or 3 community pharmacy-oriented magazines . . . time to include a publication targeting the new market makers.

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Competition to increase, execs say

The two sure things in drug retailing are taxes and increased competition.

And no one's missing the beat, according to findings of a national industry polling conducted recently by Lebhar-Friedman Research for *Drug Store News*.

Roughly 9 out of 10 drug chain executives polled agreed that in 1986, "Supermarkets, discounters and combos will continue to cut into drug retailers' market share."

They perceive encroachment in several areas: pharmacy, health & beauty aids and over-the-counter medication sales.

More than 9 out of 10—92%—predicted that H&BA sales will rise at more supermarkets and discounters this year. Similarly, 89% believe more of these competitors will add pharmacies to their stores and begin merchandising OTC products more aggressively.

Far fewer believed, however, that if H&BA sales were lost to these competitors, retail drug stores could make up for it by increasing sales of other non-traditional drug store items. Just 58% agreed with that possibility. Among chains, only 51% predicted this could happen; among independents, 71%.

The business that's more in the drug store bailiwick—prescription sales—was forecast to outpace sales of H&BA and OTC products by 69% of respondents.

1986 Drug Industry Forecast

Scanning, home health targeted for growth

Continued from page 10

would climb in 1986, and 71% predicted same-store sales gains. Moreover, 66% felt earnings per share would climb, and 65% thought shareholder equity would rise.

Their trepidation showed when just 42% predicted gains in after-tax profits, and fewer than one in five (19%) felt store profit margins could be escalated.

In a notable contrast, few top chain officials believed that same-store sales or after-tax profits would rise, while many more predicted that store profit margins would climb.

The responses from executives at large chains about financial projections were consistently more optimistic than those from independents. However, when asked about other industry trends, large chain responses were far more optimistic on only one point: store expansion.

Two out of three chain officials polled forecast growth in store counts, compared to 41% of independents and 33% of wholesalers; they were more likely to cite saturation in major markets as an inhibitor to such expansion.

Chains and independents generally agreed that any new retail drug stores wouldn't necessarily be larger than today's formats.

The consistent majority of chains, independents and wholesalers predicted that more unprofitable drug stores would close in 1986. They also felt more retailers would soon be making greater use of POS scanning. In addition, they predicted more involvement in home health care.

It's notable that 75% of executives polled agreed with the statement that "the bulk of drug companies' profits will come from drug store operations alone" in 1986.

This finding reflects the reliance by chain officials on the performance of their core business—drug stores—despite increasing diversification efforts into freestanding auto parts, stationery and home health care sites.

Execs forecast industry trends
(% Projecting increases in . . .)

	Total	Chain	Independent	Wholesaler
Home health care entry by drug chains	85%	82%	94%	67%
POS scanning at drug stores	81	82	77	89
Unprofitable store closings	64	58	71	67
New store openings	53	67	41	33
Size of new stores	36	27	44	56

Source: Lebhar-Friedman Research, 1985.

Execs wary entering 1986
(% Forecasting increases in . . .)

	Total	Chain	Independent	Wholesaler
Drug store comp sales	71%	76%	59%	89%
Aftertax profits	42	44	41	33
Store profit margins	19	24	15	11

Source: Lebhar-Friedman Research, 1985.

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MERCHANDISER

Blank videocassette sales bring high turns and more store traffic

Shoppers view blank videocassettes as a commodity and pay prices that typically yield no more than 20% gross margin every day and 15% on promotion at drug chains.

So what's the attraction? High turns, gross volume and store traffic apparently.

Typical retails are $4.99-$8.99 (often at the lower end) for name brands such as Kodak, Fuji, Scotch, JVC, Maxell, BASF, TDK,Polaroid and Sony. Drug chains often devote prime display space by front-ends and service photo and gift counters.

They're eying more than the appeal of brand names. Videocassette recorders are currently in fewer than 30% of American homes but are predicted to be in more than 7 out of 10 by 1990. VCR owners typically buy more than half a dozen blank cassettes annually, according to research by 3M, maker of the Scotch brand.

The manufacturer estimated that worldwide sales of half-inch blank videocassettes were 550 million units in 1985 and will grow to one billion a year by 1990. The U.S. portion of that will also double in size during the next four years, 3M said.

That's a growing market retail drug stores want to capture. If they don't make all the margin points they'd like on blank tapes, they're garnering profits by cross-merchandising video accessories such as head cleaners, cassette cabinets and dust covers.

At Austin Drug, for instance, an eight-store chain in affluent Long Island, N.Y., tapes are $4.99-$5.99 regular grade and $6.99 high grade. However, Austin also planograms Allsop three head cleaner at $12.99 and Discwasher at $11.95, both brands that found earlier followings at specialty shops. Austin also displays 24-cassette storage cabinets at $14.99.

Genovese sells different accessories to pick up margin

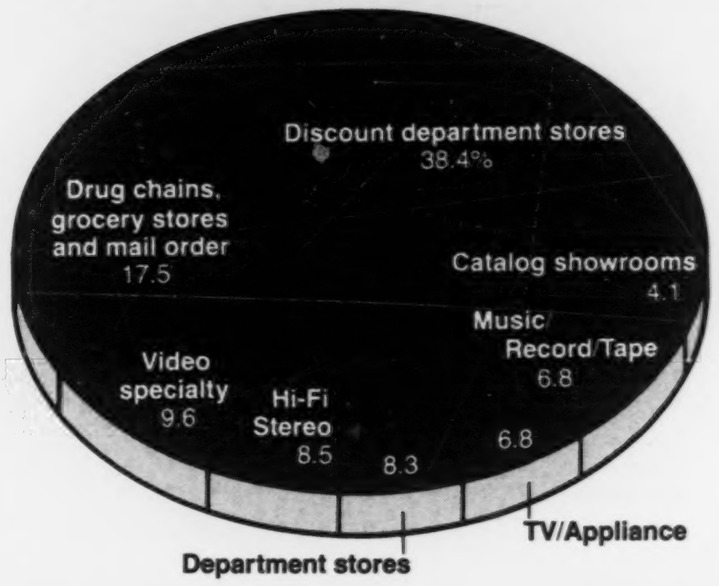
Continued on page 16

Tape formats sold
(in millions of units)

	1980	1985	1990
VHS	9.7	140.2	271.2
Beta	4.8	40.5	36.6
8mm	—	3.3	31.9

Source: 3M projections

Where blank videocassettes are sold



Source: 3M estimates

Video accessories such as $11.95-$12.99 head cleaners and $14.99 cassette cabinets are merchandised with blank tapes in pegged 6-ft. display at Austin Drugs, Plainview, N.Y.

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MERCHANDISER

Blank tape

Continued from page 15

points, such as a 3-pack of black plastic tape storage boxes at $4.49 and a fancier 4-pack that looks like library bindings at $9.99.

Gray Drug Fair sells more than half of its blank VCR tapes from all 450 stores on promotion at $4.99, but typically displays them every day in high-impulse, pegged self-service displays by checkstands at $6.99-$8.99, said Allan Cohen, merchandise manager-sundry.

Gray will add a third brand early in 1986 to the BASF and Polaroid it now carries, but Cohen hasn't decided yet how it will be positioned. "It could be step-up to a brand like TDK or Scotch, another midrange brand, or a label offering rebates such as Memorex," he said.

"I'm not sure customers are ready to pay an extra $1 for a particular brand, since they see tapes as commodity items," he added.

Sales of blank videocassettes
(for each VCR bought in 1985)

Year	No. of tapes
1985	8
1986	6
1987	5
1988	4
1989	4
1990	4

Source: 3M projections

The Electronic Industries Association predicts that U.S. consumers will have bought 11.5 million videocassette recorders in 1985.

Movie tapes need more variety

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Bambi limited releases from Walt Disney at $24.99, compared to local video shop prices of $29.95. That reflects the chain's opportunistic approach toward sales of prerecorded cassettes, said vice president-marketing and distribution Donald Gross. "As promotions come up, we'll dump display them by the front-end," he said.

He felt sales of popular movies could develop if typical retails fall to the $20-$30 range. "There'll be a market very much like record collecting."

Meantime, he noted the low-priced public domain films have sold well. At the chain's store in Plainview, N.Y., which is within one block of two specialty video shops, two racks for prerecorded movies stood by the service photo counter: One had cartoons and Sesame Street 30-minute VHS tapes at $12.99; the other a mix of old movies, how-to exercise and professional sports highlights.

During Christmas, the chain promoted old movies at $8.88 as gift items in its flyers.

But even public domain isn't for everyone. Wellby merchandising director Margaret Matteson felt "some titles would sell well, but we didn't want to put up with the residuals."

She, like other drug chain merchants, view prerecorded tapes like any other general merchandise. "It's definitely not an offshoot of the rental business. Tapes have to perform to get more space, but people still don't think of movies as something they'd normally find in a drug store," she said.

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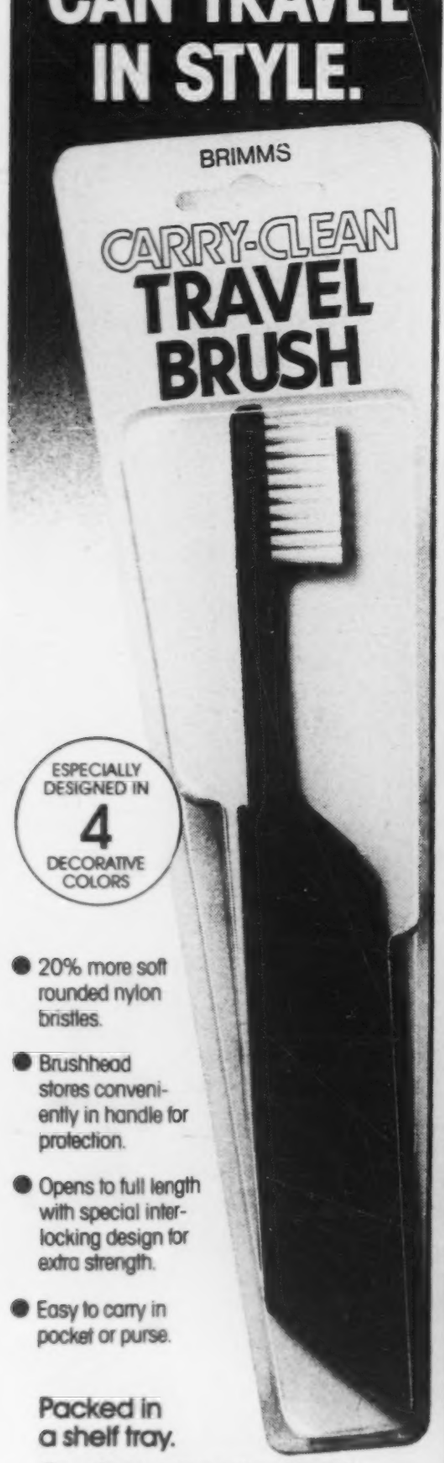
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INSIDE PHARMACY

Feds weigh Medicaid reimbursement plans

'CIP' offers generic incentive

WASHINGTON — Federal Medicaid program cost cutters are on the verge of scrapping their cumbersome "Maximum Allowable Cost" pharmacy reimbursement control system in favor of a revolutionary new approach designed to encourage drug stores to dispense lower-cost generic pharmaceuticals to the nation's indigent.

The latest MAC alternative to surface at the Health Care Financing Administration [HCFA]—a "Competitive Incentive Program" (CIP) designed to reward participating Medicaid pharmacies for substituting generic versions for brand name drugs—has already drawn a warm reception from drug retail, wholesale and pharmacy leaders at a recent HCFA briefing session.

Under the "CIP" approach, drug stores would bill Medicaid for prescriptions at their "usual and customary" retail price, less a special "government discount." But since the reimbursement level for multisource products would be the same regardless of whether the pharmacist selected a generic or brand name drug, participating Medicaid drug stores would have a strong built-in incentive to select the lowest cost version.

In fact, HCFA officials maintain that the disincentive for selecting more expensive brand name drugs would be so strong that "the pharmacist would almost always choose to dispense a generic product."

To ensure that pharmacists don't simply raise their Rx

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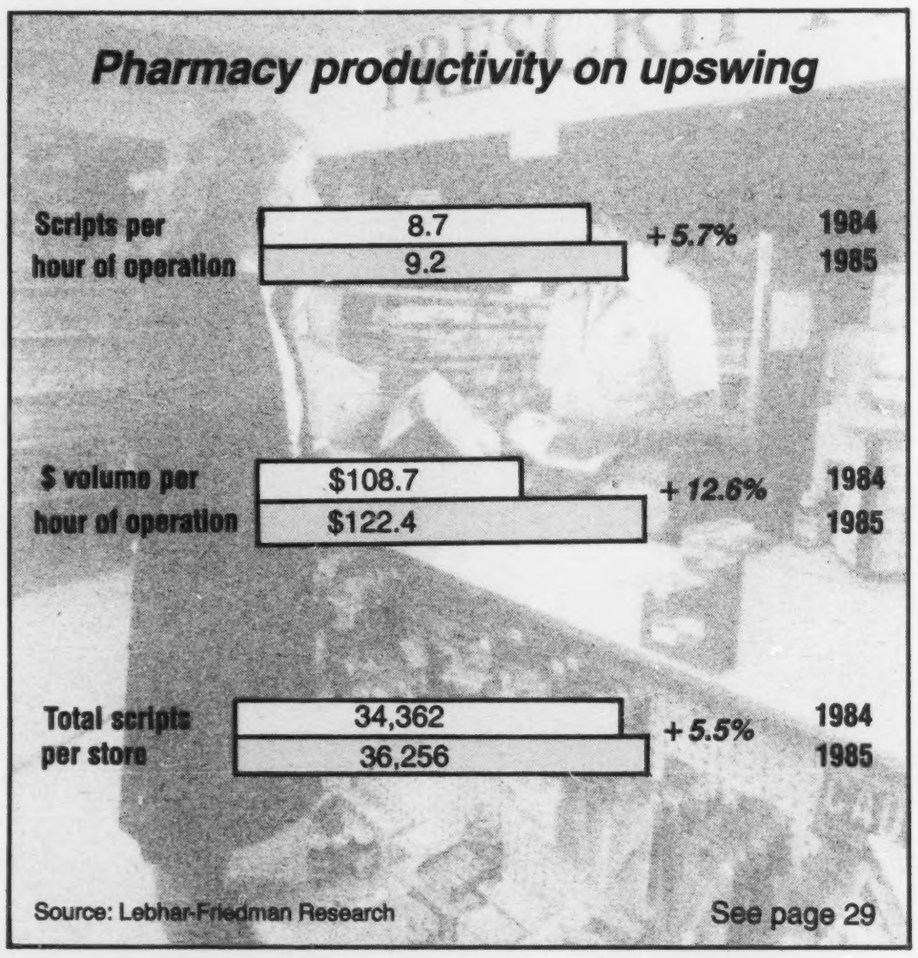


Searle and Merrell Dow aim for single pricing system

SKOKIE, Ill. — Two major manufacturers have recently announced changes in bidding procedures in response to industrywide accusations that the multitiered pricing of pharmaceuticals is one of the major causes of diversion.

The companies, Searle, headquartered here, and Merrell Dow, based in Cincinnati, say the changes were made to discourage, if not eliminate, diversion. Both contend they are aiming for a single pricing system.

These latest developments are part of an attempt among manufacturers to find a solution to the diversion problem, according to Jim Harrison, president of Harco Drug and chairman of the NACDS. "Manufacturers are as concerned about the problem as retailers and they are addressing it and trying to find an answer."

Both Searle and Dow have attempted to narrow the price gap between what hospitals and retailers pay for pharmaceuticals.

Searle's "single-price policy" applies only to retail trade packaged products sold to both wholesale and hospital accounts. The company said that bidding will continue for products packaged or labeled exclusively for hospital use, such as unit dose and injectables.

"With the new price structure, we are no longer going to provide wholesalers with the ability to discount products sold to hospitals that can also be sold at retail," said Alan Heller, director of field sales operations for Searle.

Continued on page 27

New Calif. law would require Rx consultation

SACRAMENTO, Calif. — An amendment about to be passed in California will give pharmacists a larger role in the delivery of health care by making patient consultation one of the services pharmacists must provide.

The amendment, which will become part of the state's pharmacy regulations, is now in the final stages of the legal process and it is expected to be passed by the California Office of Administrative Law "within the next few months," said Lorie Rice, executive officer of the California State Board of Pharmacy.

The regulation states that pharmacists must provide professional consultation "upon request or whenever the pharmacist deems it warranted in the exercise of his or her professional judgment."

The new regulation also requires drug stores to place a sign in the pharmacy notifying customers that professional consultation is available in addition to other services.

The directive follows the board's attempt several years ago to make patient consultation mandatory, but the proposal failed because of vigorous opposition from the state's chain drug stores, according to Rice. The word mandatory, according to chain execs familiar with the proposal, was considered inappropriate because it implied that pharmacists had to consult with every patient.

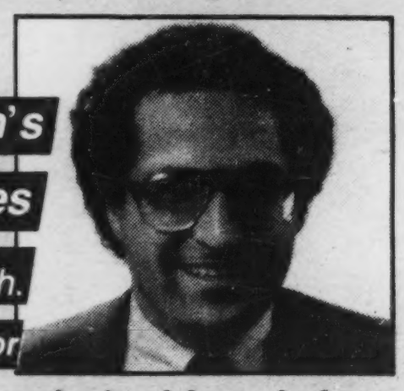
"The board feels that the

Continued on page 27

MAC change would beef up reimbursements

Cohen's Capsules

Harold Cohen, R.Ph.
Pharmaceutical Editor



HCFA's MAC program may be headed for the scrap pile of used government cost-containment pharmacy programs, and that's just fine with me.

For those not familiar with MAC, it is the Health Care Finance Administration's acronym for Maximum Allowable Cost, a preset reimbursement for a handful of highly prescribed drugs under the Medicaid program.

Since its conception, MAC's reimbursement limits have been adjusted to reflect price increases and the availability of a particular drug.

MAC was instituted in 1976 to help put a lid on pharmacists dispensing brand name drugs when "suitable," less expensive generics were available. Unfortunately, it also put a lid on the pharmacists' professionalism.

While I am sure the program saves the Medicaid program some money, it leaves no room for the pharmacist to be properly reimbursed by Medicaid for the myriad of services performed each time a Medicaid prescription is filled. These include such vital services as patient counseling and keeping accurate patient profiles.

Oh sure, there is a professional fee tacked onto each prescription billed to Medicaid, but as you are well aware, the fee is constantly the center of controversy because it does not reflect the true fee deserving of a health professional like the pharmacist.

Any increase of the Medicaid fee over the years was always given reluctantly and never without a fight. In my opinion, the fee was never increased because HCFA believed the pharmacist deserved it for the services he performs.

My government sources tell me that the situation may be changing and MAC may soon be history. There is talk it may be replaced with a more realistic fee structure closer to a pharmacist's usual and customary fee for filling a prescription.

One program being discussed would offer pharmacists an incentive for dispensing a generic over a branded drug. This would give the pharmacist the opportunity to choose a generic when he or she thinks it's needed. Under such a program, dispensing of certain generics as mandated by the current MAC program would be eliminated.

I endorse *any* plan that allows the pharmacist to make his own professional decisions. This may be hard for officials at HCFA to believe, but not all pharmacists are driven by the almighty dollar. Many actually want to practice pharmacy in the most professional manner possible and get paid properly for their services.

I'm encouraged that some people in government have come to realize that pharmacists deserve better than they are getting.

I'm not going to miss the MAC program, because, in my opinion, there is just no beef in pharmacy's BIG MAC, never was and never will be.

Rx/OTC news

PHARMACY

Script profits slip as third-party increases

Prescription gross profit margins in chain drug stores slipped 1.5% in 1985 as the number of third-party prescriptions rose almost 21%.

According to a study conducted by *Drug Store News*, the increase in third-party participation by chain retailers had an adverse effect on their bottom line. Pharmacists saw a decrease from 35% to 34.5% in their gross margins. The decrease cost the average chain retailer over $2,000 in gross profit dollars for the year.

Overall, third-party prescriptions accounted for an average of 27.9% of chain drug store total pharmacy sales, up 2.2% from last year.

A major reason for the lower profitability is the fixed fee reimbursement mandated by most third-party providers. This fee is usually below the usual and customary retail price for the same prescription filled for a cash customer.

Pharmacy operations overview

	1984	1985	% growth
Rx dept. annual sales	$445,960	$492,133	+10.4%
Gross profit dollars	$156,086	$169,786	+ 8.8
Average Gross margin	35%	34.5%	− 1.5
Average retail Rx price	$12.85	$13.26	+ 3.2
Scripts filled/year	34,362	36,256	+ 5.5
Average store sales that are Rx	29.5%	30.4%	+ 3.1
Average $ transaction per customer	$18.29	$19.34	+ 5.7
Average No. of third party plans	9.2	11.1	+20.7
Average % of Rx sales from third party scripts	27.3%	27.9%	+ 2.2

Source: Lebhar-Friedman Research

Employment Profile

	1984	1985
Staff pharmacist's salary	$30,705	$32,501
Rx Department manager's salary	$31,415	$33,346
No. of days worked per week		
Full-time pharmacists	5.2	5.2
Part-time pharmacists	2.5	2.5
Hours worked per week (full-time)	44.2	43.68
Hours per week dept. is open	79.1	78.1
Number of pharmacists per dept.		
Full-time	1.9	1.9
Part-time	0.9	0.9
Number of technicians per dept.		
Full-time	1.4	1.4
Part-time	1.7	2.1

Source: Lebhar-Friedman Research

Analysis of prescription inventory

	1984	1985	% Change
% inventory investment at cost	$41,285	$44,815	+ 8.6%
% of inventory delivered from manufacturer			
Directly to company warehouse	13.9%	14.8%	6.5
Directly to store	9.6	8.7	−10.3
% of inventory delivered from wholesaler			
Directly to company warehouse	14.8	16.9	+14.1
Directly to store	61.0	58.7	− 4.0
Inventory through a diverter	0.7	0.9	+29.0
% of generics purchased:			
At headquarters	19.5	25.3	+30.0
At store level	80.5	74.7	− 8.0
Inventory Turns	7.5	8.0	

Source: Lebhar-Friedman Research

Productivity and script counts

	1984	1985	% Growth
Scripts filled per hr of operation	8.7	9.2	+ 5.7%
$ volume of scripts filled per hr	$108.7	$122.4	+12.6%
Scripts filled per day by			
Full-time pharmacists	79.6	84.3	+ 5.9%
Part-time pharmacists	41.1	43.1	+ 4.9%
Total scripts filled annually	34,362	36,256	+ 5.5%
New	16,035	17,037	+ 6.2%
Refills	18,327	19,219	+ 4.9%

Source: Lebhar-Friedman Research

The study showed that the proliferation of third-party programs has forced many chains into computerizing their pharmacy departments.

There was a marked increase in the number of pharmacies with computer systems in 1985. Sixty-four per cent of all chains surveyed said they were equipped with computers. This represents a 15% increase from the previous year. By the end of 1986, the study projected that over 76% of all chain drug store pharmacy departments will be filling prescriptions with the use of a computer.

Sales

While gross margins were down in 1985, prescription department sales showed an increase of 10.4% over the previous year. Retailers reported average prescription department sales of $492,133, up almost $50,000 from 1984.

Despite the increased sales, the average prescription price held fairly steady, rising only 41¢ to $13.26, a modest 3% increase over last year. Increased prescription sales resulted primarily from increased volume in chain pharmacies. According to the study, chain pharmacies filled an average of 36,256 prescriptions in 1985, up 5.5% over 1984.

The retailers said prescription sales accounted for approximately a third of total store sales, less than a 1% increase, and that the average chain store customer was spending more with each transaction. According to the study, the consumer visiting a chain drug store spent an average of $19.34 on each transaction at the pharmacy register, up 5.7%.

Inventory

The study also revealed that chain retailers are changing the way they purchase their drug inventory. In 1985, there was an average increase of 14.1% in prescription inventory purchased from wholesalers and delivered to the warehouse. Although the study showed an increase in the amount of drug inventory going to the warehouse, the majority (58.7%) of drugs purchased from wholesalers are still shipped directly to the store.

In regard to inventory purchased direct from the manufacturer, retailers said they are warehousing more in that area, as well. The study showed a 6.5% increase in merchandise shipped to warehouses direct from manufacturers. The bulk of those drugs go to the chains' warehouses.

Overall, the average prescription inventory carried by drug chains was up 8.6%, to $44,815. Less than 1% is bought from diverters, according to the study.

Generic Inventory

In the area of generics, there was a clear indication that while the pharmacist at store level is still the decision-maker on what generics are purchased, his purchasing authority has eroded in the past year.

According to the survey, 25.3% of generic purchases were made at headquarters, compared to 74.4% at the store level, but headquarters' purchases were up 30%.

Chain retailers reported that average turns in the prescription department were up to eight times compared to 7.5 last year, indicating tighter purchasing controls and fewer sku's.

Chains boost Rx productivity

NEW YORK — Productivity in chain drug store pharmacy departments increased at a healthy clip in 1985, as the number of scripts dispensed per hour by a pharmacist rose 5.7% to 9.2, compared to 8.7 in 1984, according to the latest *Drug Store News* pharmacy operations survey.

In line with the gains in scripts dispensed per hour, the prescription dollar volume filled per hour rose 4.9% to $122.40—a $13.70 increase per hour over 1984.

Moreover, the number of scripts filled per day by a full-time pharmacist in a chain drug store rose to 84.3—up 5.5% over 1984. And, similar increases in productivity were also tallied for part-time pharmacists. The number of scripts filled per day by part-time pharmacists rose 6.2% to 43.1.

Overall, the chain drug stores were dispensing 1,894 more scripts in 1985 compared to 1984. The total number of scripts filled annually shot up 5.5% to 36,256 last year, compared to 34,362 in 1984.

And, pharmacy is in no danger of going out of business. The number of new scripts dispensed in 1985 increased a healthy 6.2% to 17,037, while the number of refills increased 4.9% to 19,219 in 1985.

The surge in the number of new scripts last year was due to the flurry of new product introductions, to the larger number of elderly patients in the population requiring medications and, to an increasing extent, the new cost containment programs such as DRG's which are shortening hospital stays.

Much of the productivity gains in chain drug store pharmacy departments can be attributed to the increasing number of outlets with pharmacy computers.

According to the survey, nearly 64% of chain drug stores were equipped with pharmacy computers in 1985, whereas only 48.7% of the chains had computer access in 1984.

In 1986, the survey projects that 75% of chain drug stores will have pharmacy computers.

Because of computer technology, the study revealed that pharmacy departments were able to increase productivity while cutting back on the number of hours the department is open. For example, the number of hours per week the pharmacy department was open in 1985 was 78.1, compared to 79.1 hours in 1984.